

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AGR-20 SPM-01 IO-13 EB-11 AID-20 IGA-02

OMB-01 TRSE-00 COME-00 STR-08 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01

SS-15 USIA-15 RSR-01 /160 W
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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, ETRD, JA

SUBJ: 1973-74 CROP RICE PRICE

1. SUMMARY: GOJ ANNOUNCED AUG 8 THAT FOOD AGENCY'S (FA'S) AVERAGE PURCHASE PRICE FOR RICE FOR THIS YEAR'S CROP WILL BE SET AT 16.1 PERCENT ABOVE LAST YEAR'S. AT THE SAME TIME IT WAS ANNOUNCED THAT THE FA'S RICE RESALE PRICE WILL BE MAINTAINED AT ITS PRESENT LEVEL AT LEAST UNTIL THE END OF THIS FISCAL YEAR (MARCH 31, 1974). IT IS GENERALLY ACCEPTED THAT THE RESALE PRICE AND HENCE THE CONSUMER PRICE WILL BE HELD AT THE PRESENT LEVEL UNTIL AFTER THE NEXT UPPER HOUSE ELECTION (SCHEDULED FOR JUNE 1974). THIS WILL BE DONE BY THE LDP IN AN EFFORT TO MAINTAIN ITS PRESENT MAJORITY RULE IN THE UPPER HOUSE. END SUMMARY.

2. GOJ ANNOUNCED AUG 8 THAT FA'S AVERAGE PURCHASE PRICE FOR RICE FOR THE CROP NOW BEING HARVESTED IS SET AT YEN 10,401 PER 60 KG. (\$654 PER METRIC TON), UP 16.1 PERCENT FROM LAST YEAR'S PRICE (PRICE APPLIES TO UNMILLED RICE OF LIMITED OFFICIAL USE

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AVERAGE GRADE).

3. FA'S RICE RESALE PRICES, NOW AVERAGING YEN 7,950 PER 60 KG., WILL BE INCREASING DURING THIS FISCAL YEAR (ENDING MARCH 31, 1973) AND WILL PROBABLY NOT BE INCREASED UNTIL AFTER THE UPPER HOUSE ELECTIONS EXPECTED IN JUNE 1974.

4. THE LDP IS ATTEMPTING TO MAINTAIN CONTROL OF THE FARM VOTE (VIRTUALLY ALL JAPANESE FARMERS PRODUCE SOME RICE), ON ONE HAND AND NOT ANTAGONIZE CONSUMERS ON THE OTHER.

5. MAF HAD RECOMMENDED A RICE PRICE INCREASE OF NOT MORE THAN 9.1 PERCENT. FARM COOPERATIVES WERE DEMANDING A 40 TO 80 PERCENT INCREASE. THE RICE PRICE DELIBERATION COUNCIL RECOMMENDED A 15 PERCENT INCREASE BUT THE LDP ADDED AN EXTRA 1.1 PERCENT FOR GOOD MEASURE, REPORTEDLY THROUGH THE PERSONAL INTERVENTION OF PRIME MINISTER TANAKA.

6. SINCE PASSING THIS INCREASE ON TO CONSUMERS EITHER IN TOTAL OR IN PART WOULD GIVE OPPOSITION PARTIES TOO MUCH AMMUNITION TO USE IN THE UPCOMING UPPER HOUSE ELECTION, IT IS VERY UNLIKELY THAT THE FA'S RICE RESALE PRICES WILL BE RAISED UNTIL AFTER THE ELECTION.

7. MAF OFFICIALS VOICE CONCERN ABOUT THE STRAIN THIS POLICY WILL PUT ON THE FA'S BUDGET. ACCORDING TO ONE OFFICIAL, EVERY PERCENTAGE POINT THE PURCHASE PRICE IS RAISED WHILE THE RESALE PRICE IS HELD CONSTANT MEANS AN ANNUAL COST TO THE FOOD AGENCY OF ABOUT YEN 12.5 BILLION.

8. BY LAW THE FOOD AGENCY STANDS READY TO PURCHASE ALL THE RICE FARMERS WISH TO SELL THEM. LAST YEAR, HOWEVER, ABOUT 30 PERCENT OF THE RICE MARKETED IN THE COUNTRY WENT TO THE OPEN MARKET (THIS WAS MOSTLY HIGH QUALITY RICE PURCHASED BY FARM COOPS AT HIGHER THAN FA PRICES). MAF OFFICIALS FEAR THAT THE NEW SUPPORT PRICE WILL MEAN LESS RICE WILL BE MARKETED ON THE OPEN MARKET THIS YEAR AND HENCE FA SUBSIDIES WILL HAVE TO BE EXTENDED TO MORE OF THE RICE CROP THAN HAD BEEN ANTICIPATED.

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9. ANOTHER CONCERN OF MAF IS THAT THE NEW RICE PRICE WILL ENCOURAGE OVERPRODUCTION. THE RICE LAND DIVERSION PROGRAM, IN EFFECT SINCE 1970, HAS SUCCESSFULLY ELIMINATED A VERY BURDENSOME RICE SURPLUS PROBLEM. HOWEVER, OF THE 560,000 HA. TAKEN OUT OF RICE PRODUCTION UNDER THE PROGRAM

(ABOUT 17 PERCENT OF THE TOTAL RICE ACREAGE) ABOUT

HALF OF IT WAS LEFT FALLOW (UNUSED). THE SUBSIDY PAYMENT FOR LEAVING THIS LAND FALLOW WILL BE TERMINATED WITH THIS YEAR'S CROP. HENCE, IT IS FEARED THAT AS MANY AS 200,000 HA. OF RICE LAND NOW OUT OF PRODUCTION MAY COME INTO RICE PRODUCTION NEXT YEAR.

10. ANOTHER PROBLEM THAT MAF FACES WITH THIS NEW PRICE IS THE DISTORTION IT MAY TEND TO CAUSE IN LAND USE. THE PRODUCTION OF WHEAT AND BARLEY FOR EXAMPLE HAS GONE FROM NEARLY 4 MILLION TONS TEN YEARS AGO TO ABOUT 300,000 M.T. LAST YEAR. AN ATTEMPT TO REVERSE THIS TREND WAS MADE RECENTLY WHEN THE WHEAT AND BARLEY SUPPORT PRICES WERE RAISED 14 PERCENT, NEARLY THREE TIMES THE USUAL INCREASE. THE PLAN WAS TO INCREASE THE WHEAT-BARLEY/RICE PRICE RATIO, SINCE THIS RATIO HAS DECLINED FROM 0.6 TO 0.36 SINCE WWII. BUT THE NEW RICE PRICE INCREASE HAS NEGATED THIS EFFORT.

11. RECOGNIZING THIS LAND-USE DISTORTION PROBLEM, LDP LEADERS HAVE INDICATED THAT THEY WILL ADD YEN 15 BILLION TO THE FY-74 BUDGET TO FURTHER SUBSIDIES FOR THE PRODUCTION OF WHEAT, BARLEY AND SOYBEANS. THE METHOD OF SUBSIDY TO BE USED HAS YET TO BE DETERMINED.

12. THE LDP NOW MAINTAINS A MAJORITY OF EIGHT SEATS IN THE UPPER HOUSE. ALTHOUGH RAISING THE RICE PRICE 16.1 PERCENT WHILE HOLDING THE LINE ON THE CONSUMER PRICE OF RICE IS BOUND TO COST THE TAXPAYERS A SUBSTANTIAL AMOUNT, IT APPEARS THAT THE LDP CONSIDERS THIS A NECESSARY ACTION TO SUPPORT ITS HOPE OF MAINTAINING ITS SMALL MAJORITY IN THE UPPER HOUSE.
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